

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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FEB 22 2001

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)

BLACKDUCK TELEPHONE COMPANY)

and)

ARVIG TELEPHONE COMPANY)

File No. _____

Joint Petition for Waiver of the Definition)

of "Study Area" Contained in Part 36,)

Appendix-Glossary of the Commission's)

Rules and Related Waiver of Section 54.305)

Of the Commission's Rules)

Federal-State Joint Board on)

Universal Service)

CC Docket No. 96-45 /

JOINT PETITION FOR WAIVER

Blackduck Telephone Company ("Blackduck") and Arvig Telephone Company ("Arvig") (collectively "Petitioners"), by their attorneys, hereby submit this Joint Petition for Waiver, requesting waiver of the definition of "Study Area" contained in Part 36 of the Commission's rules as a consequence of the sale of a single exchange, the Ash River exchange in Minnesota, by Arvig to Blackduck. In addition, Petitioners seek a related waiver of Section 54.305 of the Commission's rules in order to temporarily raise the cap on universal service support. ¹

These requests are necessary to further service to rural customers of small local exchange carriers ("LECs"). The Ash River exchange includes 116 access lines

¹ Petitioners also are contemporaneously filing a Joint Petition for Waiver of Filing Fee, seeking a return of the \$6,220.00 filing fee associated with the filing of the "study area" waiver request in this Petition.

2 Copies

in rural, northern Minnesota, bordering Canada. (See Attachment 1 hereto) After transfer of the exchange, Arvig operates approximately 12,300 access lines and Blackduck operates approximately 1,604 access lines. Blackduck and Arvig are both rural LECs that participate in the NECA pool settlement process on a cost basis. The Ash River exchange encompasses approximately 800 square miles, representing a density of only 0.145 access lines per square mile.

I. WAIVER OF STUDY AREA BOUNDARIES

When evaluating petitions for waiver of the rule freezing study area boundaries, the Commission considers whether: (1) the change adversely affects the Universal Service Fund ("USF"), (2) a state commission with jurisdiction over the relevant exchanges objects to the transfer, and (3) the transfer is in the public interest. *In the Matter of Kendall Telephone, Inc and Wisconsin Bell, Inc.*, 13 FCC Rcd 17739, 17742 (CCB 1998), *citations omitted*.² As shown below, grant of this request will not adversely affect the USF support program, the underlying transaction has been approved by Minnesota Public Utilities Commission ("MPUC"), and grant of the Petition promotes the public interest in preserving and advancing service in rural areas.

Both Petitioners are small, rural local exchange carriers seeking a waiver permitting Blackduck to consolidate the Ash River exchange into its existing Minnesota study area and for Arvig to reduce its Minnesota study area accordingly. Petitioners submit that this waiver should be granted based upon the Commission's established guidelines.

A. There Will Be No Adverse Effects on the Universal Service Fund

Blackduck intends to include the Ash River exchange in its existing Minnesota study area, and not create a new study area. Attachment 1 hereto contains maps showing: the service area of the Ash River exchange, the pre-transfer study area boundaries of Arvig and Blackduck in Minnesota, and the post-transfer study area boundaries of Arvig and Blackduck in Minnesota.

Removal of the Ash River exchange from Arvig's study area would reduce interstate high cost loop, long term annual and local switching support received by Arvig by a projected annual amount of \$56,892, with Blackduck being eligible to receive annual support for the Ash River exchange of only \$26,465 if such support is capped under Section 54.305 of the Commission's Rules. This represents a net annual decrease of \$30,427. Without capping, Blackduck estimates that the addition of the Ash River exchange would increase its annual interstate high cost support by \$61,689. If compared to the capped amount, Blackduck would suffer an annual support shortfall of \$35,224 (*i.e.* \$61,689-\$26,465).

The Petitioners' request to waive Section 54.305 of the Commission's rules and permit Blackduck to recover this tiny annual increase of \$4,797 is contained in Section II hereto.

² See also Public Notice, 10 FCC Rcd 13228 (1995).

The Blackduck and Arvig support data are shown in detail in the following chart:

| BLACKDUCK | Pre-sale | Ash River | Post-sale |
|------------------|-------------|------------|-------------|
| 1999 Support | \$369,539 | \$61,689 | \$431,228 |
| Per Line | \$236.13 | \$531.80 | \$256.53 |
| | | | |
| ARVIG | | | |
| 1999 Support | \$2,756,006 | \$(56,892) | \$2,699,114 |
| Per Line | \$228.15 | \$(490.45) | \$225.60 |
| | | | |
| 1999 Total | \$3,125,545 | \$(4,797) | \$3,130,342 |

Attachment 2 hereto provides Part 36 pre-sale and estimated post-sale revenue requirements and supporting balances for the Ash River exchange. Also provided are pre-sale and estimated post-sale Part 69 data. Historically, the Ash River exchange has been accounted for as part of Arvig's study area and has not been treated separately. Neither Blackduck nor Arvig maintains accounting records disaggregated by individual exchange. Therefore, Blackduck will apply its historic study area factors to the Ash River exchange and not adopt the data of Arvig.

In the event the instant study area waiver request is not granted, Blackduck will be forced to incur accounting costs that are disproportionate to the size of the Ash River exchange and this transaction. As noted above, Blackduck and Arvig do not maintain accounting records for their individual exchanges; rather, records are

kept for their entire study areas. Without a study area waiver, Blackduck would have to keep separate records for the Ash River exchange, causing it irregularities and burdensome costs. For example, if separate treatment of the Ash River exchange cost \$10,000 annually in accounting and administrative expenses, this represents an annual burden of more than \$86.00 per line. The Commission should take all steps available to avoid unnecessary administrative burdens to a small rural LEC such as Blackduck.

B. The Minnesota Commission Has No Objection to the Study Area Waiver

The sale of the Ash River exchange has been approved in a decision of the MPUC, a copy of which is appended hereto as Attachment 3. In its decision of November 19, 1997, MPUC approved the sale of the exchange by Arvig to Blackduck, including all of the assets, authorizations and services associated with the exchange. In addition, MPUC stated that it does not object to the grant by the Commission of study area waivers, consistent with this Joint Petition. MPUC has not required any specific facilities upgrades or service extensions as a result of its decision.

C. The Study Area Waiver Will Serve the Public Interest

As part of its acquisition, Blackduck contemplates significant improvements to the Ash River exchange. The anticipated improvements include: (1) switch upgrades to provide equal access and a full array of custom calling services along with Caller ID; (2) upgrade of microwave connections; (3) building refurbishment or replacement; and (4) line expansions. All of these upgrades will improve service to

customers as well as add to the array of switching services to which customers are able to subscribe.³

Through the provision of a new switching platform and related technology upgrades, Ash River subscribers will receive improved customer service and new service offerings. These improvements are particularly critical because Ash River is isolated in rural northern Minnesota (See Attachment 1 hereto), where severe winter conditions make reliable service especially important and impede repairs if failures occur. In addition, as Attachment 1 makes clear, the Ash River exchange is closer to Blackduck's existing service area than to that of Arvig, making central administration and repair services more efficient.⁴

II. WAIVER OF SECTION 54.305

Petitioners request a limited waiver of Section 54.305 of the Commission's rules so that Blackduck, after acquiring the Ash River exchange, will continue to receive the per-line level of universal service support that Arvig received for the lines prior to the transfer, plus a tiny increase which would result from inclusion of the Ash River exchange in Blackduck's study area if support is not capped artificially. As shown below, permitting this requested net increase in support would serve the public interest, would be entirely *de minimis*, and consistent with the Commission's relevant decisions and policies.

³ Investments by Blackduck to accomplish these upgrades are estimated to be: Switch upgrade, \$100,000; upgrade of microwave, \$50,000; building refurbishment, \$20,000; and line expansion, \$15,000.

⁴ The Ash River area is a drive of approximately five hours from Arvig's operating headquarters but is only 70 miles from Blackduck's headquarters.

Section 54.305 of the Commission's Rules would cap the amount of USF support available to Blackduck for the Ash River exchange at \$26,465 annually.⁵ This is in comparison to the anomalous situation that Arvig would reduce its USF annual compensation by a projected annual amount of \$56,892 after divestiture of the Ash River. This is a function of the differences in costs per line of the two LECs' study areas.

A. The Increase in Universal Service Support Would Be *De Minimis*.

Pursuant to Section 1.3 of the Commission's Rules, Petitioners request that the Commission waive Section 54.305 of the Commission's Rules for the period leading up to January 1, 2000⁶, and allow Blackduck to receive support for the Ash River exchange on an uncapped basis though ordinary inclusion of the Ash River exchange in its Minnesota study area. If the reduction of cost support for the Ash River exchange for Arvig is netted against the increase in support if included in the Blackduck study area uncapped, then the aggregate increase in USF support only would be an estimated \$4,797 annually (the difference between the \$56,892 reduction in support to Arvig as compared to the \$61,689 increase to Blackduck). On this basis, the Petitioners urge the Commission to waive the cap and allow this infinitesimal USF increase to take place, an amount which is truly *de minimis*.

⁵ See pages 3-4, *supra*.

⁶ We note that the Commission has removed all caps on high-cost loop support imposed as part of the grant of study area waivers, effective as of January 1, 2000. Accordingly, Petitioners need not request the removal of their caps on high-cost loop support from that date forward. See *Petitions for Waiver Concerning the Definition of "Study Area" Contained in Part 36 Appendix-Glossary of the Commission's Rules*, Order, DA 00-1761 (CCB Aug. 4, 2000); See also *Petitions for Waiver and Reconsideration Concerning Sections 36.611, 36.612, 61.41(c)(2), 69.605(c), 69.3(e)(11) and the Definition of "Study Area" Contained in Part 36 Appendix-Glossary of the Commission's Rules Filed*

Recent Commission action establishes conclusively that an addition of \$4,797 in support is *de minimis*. Last month, the Commission granted a request for waiver of § 54.305. In that decision, the Commission approved an estimated increase in annual support of \$1,790,000. *In the Matter of Mescalero Apache Telecom, Inc., Waiver of Section 54.305 of the Commission's Rules, Order*, CC Docket No. 96-45 (rel. January 18, 2001). Arvig and Blackduck seek less than three percent of the increased support approved by the Commission a few days ago.⁷

B. The Waiver Would Be Consistent With FCC Policies and Goals.

This waiver is consistent with the Commission's policies behind its 1984 decision to freeze study area boundaries and its capping of per-line support in Section 54.305. In connection with amendments to study area boundaries, the Commission explained that:

Consistent with the reasons for the 1984 study area freeze, the Commission has been concerned from the beginning about the potential adverse impact of waivers on the high cost loop support mechanism. This was an important concern in acquisitions because, when a low-cost carrier sold a high-cost exchange, the acquiring carrier could substantially increase its high cost loop support by including the new exchange in its study area, without a corresponding reduction in the low-cost carrier's support. This concern was heightened in the early 1990's when large, low-cost, incumbent LECs began to sell substantial numbers of high-cost exchanges to smaller incumbent LECs. *In the Matters of Petitions for Waiver and Reconsideration Concerning Sections 36.611, 36.612, 61.41(c)(2), 69.605(c), 69.3(e)(11) and the Definition of "Study Area" Contained in Part 36 Appendix-Glossary of the Commission's*

by *Copper Valley Telephone, Inc. et al., Memorandum Opinion and Order and Order on Reconsideration*, DA 99-1845 (CCB Sept. 9, 1999).

⁷ Blackduck does not intend to request permission to record amortization of amounts in Account 32.2005, telecommunications plant adjustments. Currently under Arvig ownership, the 1996 interstate ratio of weighted dial equipment minutes at 2.5 for the Ash River exchange is 0.74447 with a subscriber plant factor of 0.25. Blackduck's 1996 interstate ratio of weighted dial equipment minutes at 3.0 is 0.593129 and after inclusion of Ash River would become 0.62358 with a subscriber plant factor of 0.25.

Rules Filed by Copper Valley Telephone, Inc., et. al., Memorandum Opinion and Order on Reconsideration, DA 99-1845 (CCB September 9, 1999) ("Order"), para. 4 (footnotes omitted).

As noted above, Petitioners are both small rural LECs. Arvig has approximately 12,000 lines and Blackduck fewer than 2,000 even after acquisition of Ash River. The instant transaction would include support reductions substantially comparable to the requested increase and does not present the case of a "low cost" LEC selling an exchange to a "high cost" LEC.

C. The Waiver Would Fall Within the One-Percent Guideline for Shift of Universal Service Funds.

Not only is the waiver sought here *de minimis* in absolute terms, and under Commission precedent, it would have no harmful effect on the USF mechanism. The Commission has applied a "one-percent" guideline to USF support changes, as follows:

In evaluating whether a study area change would have an adverse impact on the distribution or level of the universal service fund ("USF"), the Commission has applied a "one-percent" guideline to study area waivers filed after January 5, 1995. Under this guideline, no study area waiver is granted if it would result in an annual aggregate shift in USF assistance in an amount equal to or greater than one percent of the total USF, unless the parties can demonstrate extraordinary public interest benefit. To prevent carriers from evading this limitation by disaggregating a single large scale of exchanges into a series of smaller transactions that in the aggregate have the same effect on the USF, the Commission has further required that the "one-percent" guideline be applied to all exchange transfers where either carrier has been a party as a purchaser or seller and where a study area waiver request was submitted and granted within the previous twelve months. *Order*, para. 9, note 21, *citations omitted*.

Arvig and Blackduck only have one sale to consider and the scope of the increase in per-line support falls far below the one-percent guideline. The requested annual increase in support for the Ash River exchange following the transaction,

estimated to be \$4,797, represents less than 0.0003% of the anticipated amount the Universal Service Administrative Company may collect for high cost support in 1999.⁸ The effect of the increase would be inconsequential, and in any event, far less than one-percent of USF.⁹

D. The Waiver Would Further the FCC's Public Interest Goals and Serve the Citizens of Northern Minnesota.

Blackduck and Arvig are small rural carriers that already receive universal service support. Neither carrier should be considered to be "shopping" for increased universal service support. Blackduck is continuing universal service support already in effect for the Ash River exchange, and not attempting to qualify it for USF support for the first time as a result of the purchase. Harmonizing support for the Ash River exchange with Blackduck's actual costs and operations would be rational and consistent with the public interest goals of USF, to ensure the provision of universal service to rural customers.

The *de minimis* increase in support for the Ash River exchange would help Blackduck accomplish several improvements for the benefit of customers who rely

⁸ This figure was calculated by multiplying the amount the Universal Service Administrative Company is authorized to collect for the first quarter of 1999 for high cost support (\$440,400,000) by four. See *FCC Public Notice*, FCC 98-318 (released Dec. 4, 1998) (containing projected total program costs and contribution factors for the first quarter of 1999 for the universal service funds). The resulting figure (\$1,761,600,000) is then an estimate of the size of the high cost fund for 1999. The projected increase in high cost support to Blackduck for the Ash River exchange (\$4,797) in 1999 is less than 0.0003% of the projected payments for high cost support in 1999.

⁹ The waiver of § 54.305 granted last month in the *Mescalero Apache Telecom, Inc.* decision, *supra.*, the projection for uncapped high-cost loop support was two-tenths of one percent (.2%) of the high-cost loop support fund for the calendar year 2001, a vast multiple of what is sought by Arvig and Blackduck.

on that exchange.¹⁰ All of Blackduck's planned improvements will enhance service to customers as well as add to the array of switching services to which customers may subscribe.¹¹ Recently, in granting waivers of the per-line support cap, the Commission stated:

In addition, we believe that lifting the caps on petitioners' high cost support may increase their incentive and ability to extend service to previously unserved areas and upgrade their networks. *Order*, para. 10 (footnotes omitted).

Petitioners here submit that the same incentives apply to Blackduck and its intended improvements to the Ash River exchange.

The purpose of Section 54.305 of the Rules is "to discourage carriers from placing unreasonable reliance upon potential universal service support in deciding whether to purchase exchanges from other carriers" *Universal Service Order*, 12 FCC Rcd 8776, 8942-43 (1997). While Blackduck seeks to use additional support in order to improve service to customers in the Ash River exchange, the small potential increase in support to Blackduck should not be considered a significant factor in the company's decision to acquire the exchange.

Finally, the requested increase in support for is for a circumscribed period. As noted above, the Commission has lifted the cap prospectively from January 1, 2000, so the relief sought here is small and closed.

¹⁰ These improvements, set forth previously herein, include (1) switch upgrades to provide equal access and a full array of custom calling services along with Caller ID; (2) upgrade of microwave connections; (3) building refurbishment or replacement; and (4) line expansions.

¹¹ As stated, Blackduck serves an isolated area of Northern Minnesota, where the isolation and extreme winter weather make telecommunications and improved services vitally important. As in the FCC's grant of the request for waiver for Mescalero Apache Telecom, Inc., waiver of § 54.305 for Blackduck will increase access to telecommunications services, advancing the public interest. See *In the Matter of Mescalero Apache Telecom, Inc., Waiver of Section 54.305 of the Commission's Rules*, Order, CC Docket No. 96-45 (rel. January 18, 2001).

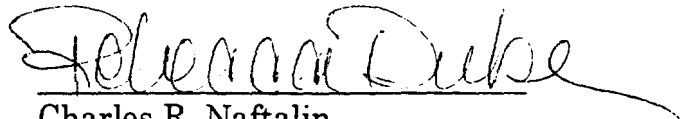
III. CONCLUSION

For the foregoing reasons, the Petitioners request that the Commission grant the universal service support cap waiver request and the study area waiver request made herein.

Respectfully submitted,

BLACKDUCK TELEPHONE COMPANY
ARVIG TELEPHONE COMPANY

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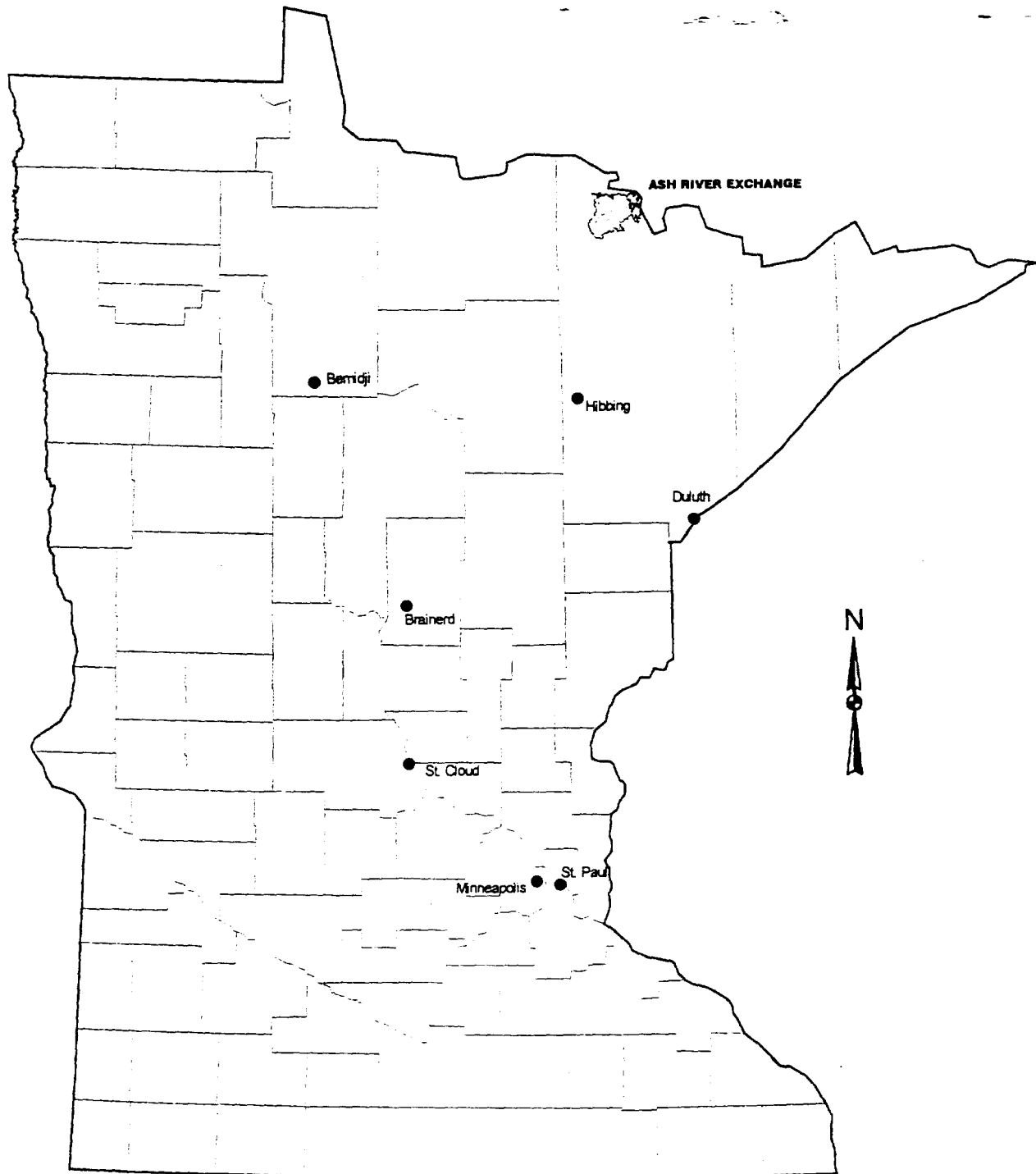
Their Attorneys

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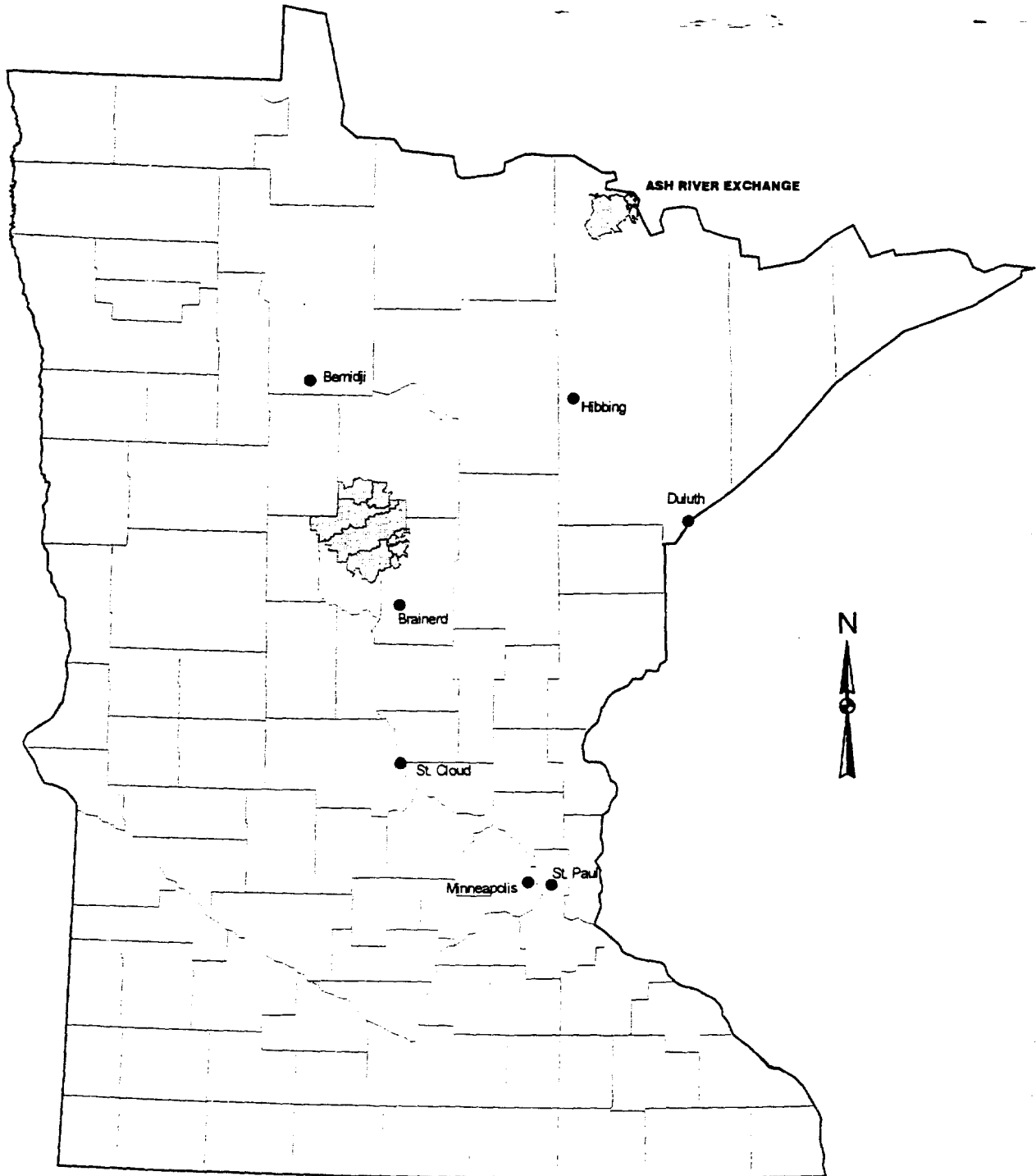
ATTACHMENT 1

Arvig Telephone Company

Ash River Exchange Only

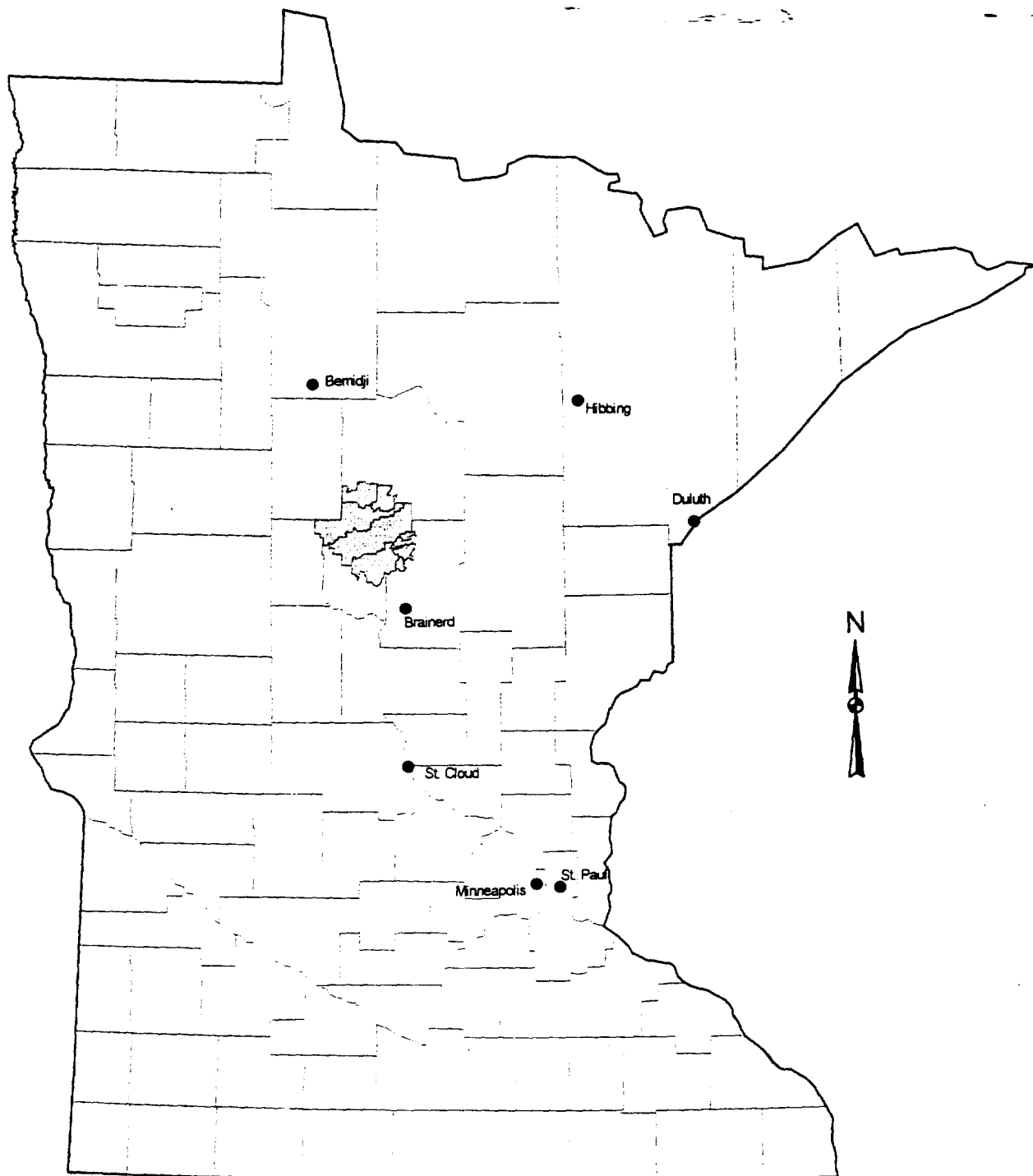


Arvig Telephone Company Including Ash River Exchange

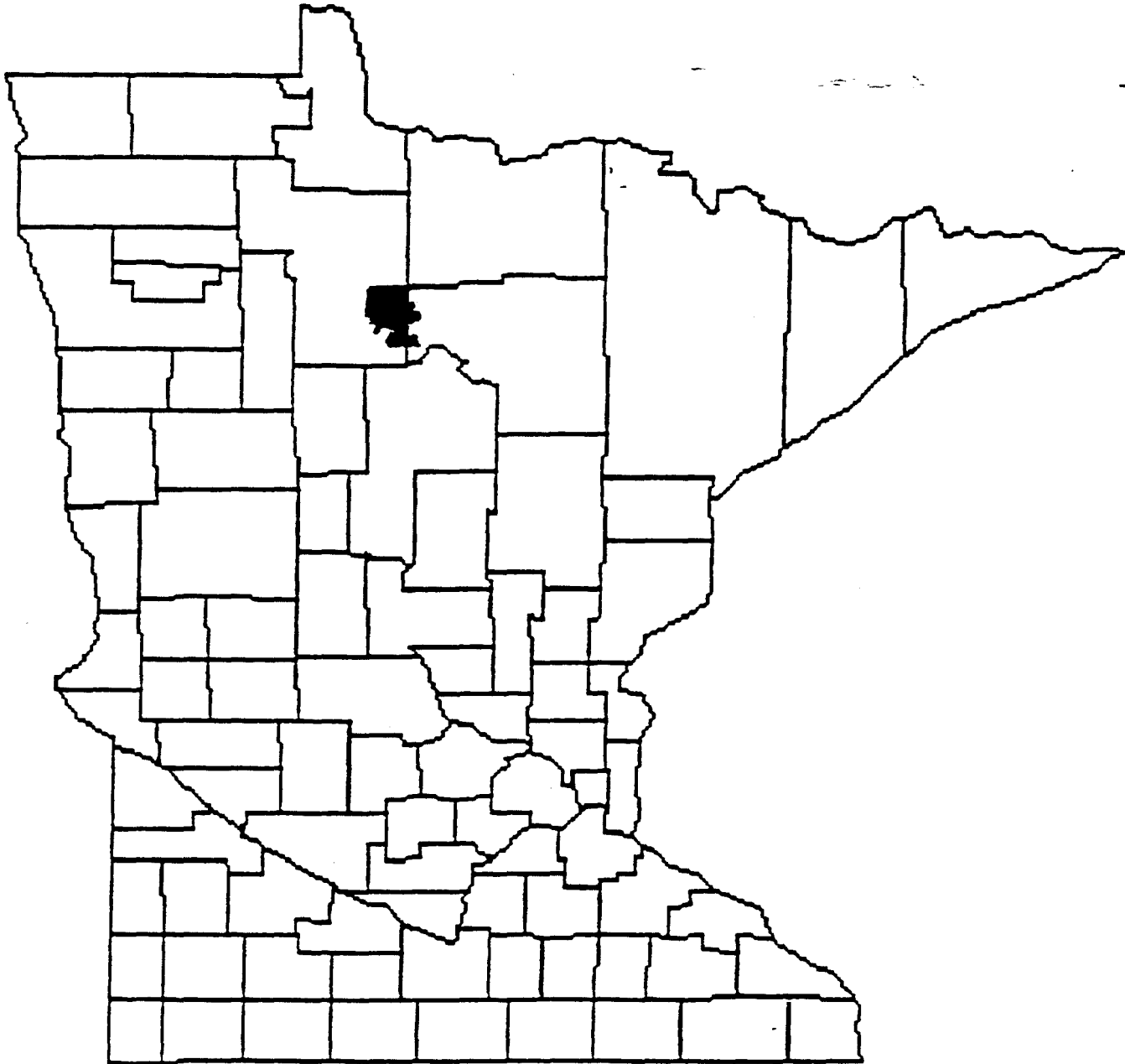


Arvig Telephone Company

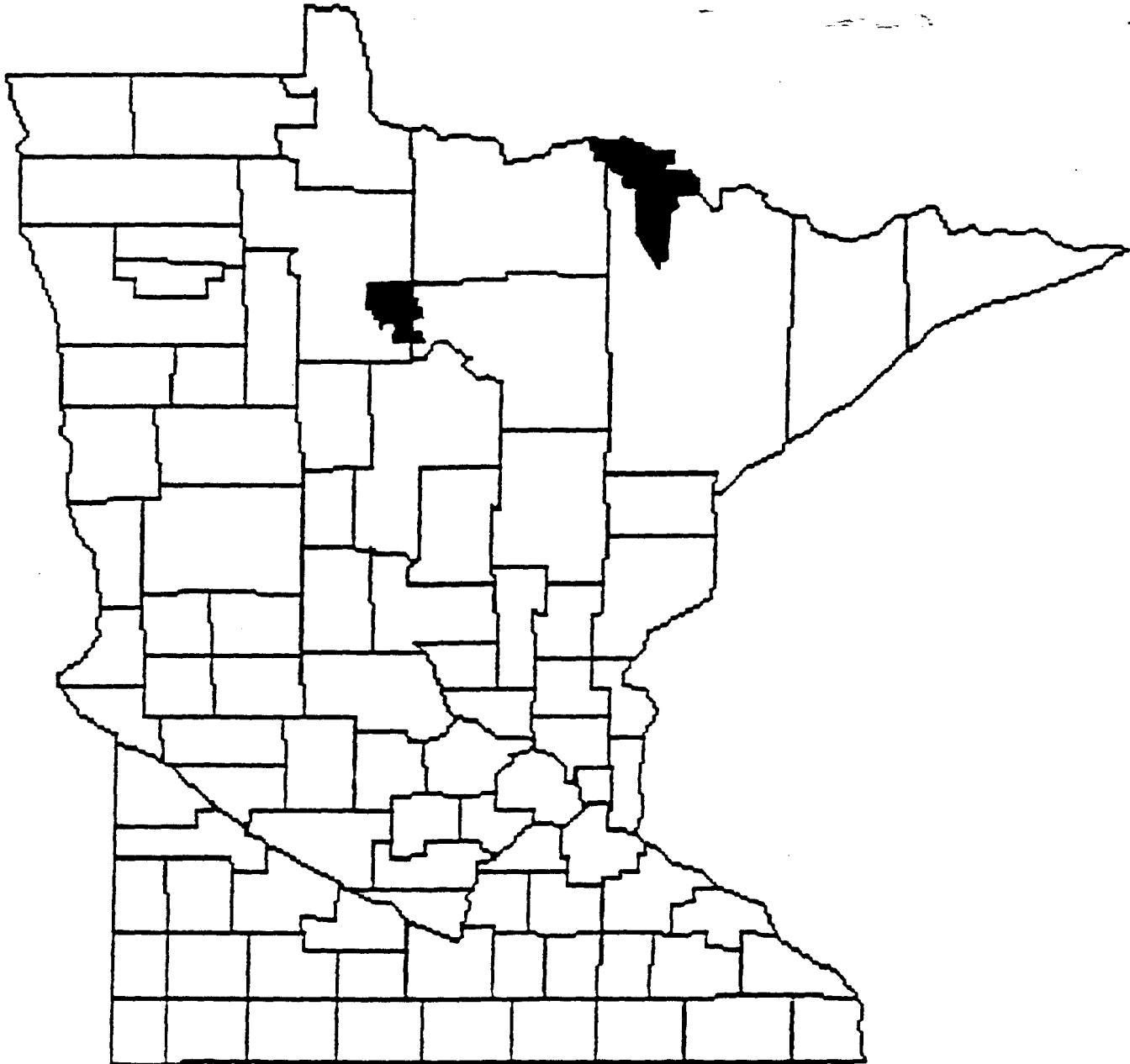
Excluding Ash River Exchange



Blackduck Telephone Company
Before the Ash River Acquisition



Blackduck Telephone Company
After the Ash River Acquisition



ATTACHMENT 2

ARVIG TELEPHONE COMPANY
PRE-SALE AND ESTIMATED POST-SALE REVENUE**
REQUIREMENT AND SUPPORTING BALANCES
PART 36 DATA

| DESCRIPTION | | | ESTIMATED POST SALE ARVIG (1997 Data for Ash River) | ACTUAL PRE- SALE ARVIG (1997 Data) |
|---|--------------|--------------|---|--|
| REVENUE REQUIREMENT SUMMARY | Notes | | | |
| NET INVESTMENT FOR SETTLEMENTS | A | | 18,565,501 | 18,904,583 |
| RATE OF RETURN | 11.25% | | 11.25% | 11.25% |
| RETURN ON INVESTMENT | | | 2,088,619 | 2,126,766 |
| ALLOWANCE FOR FUNDS USED DURING CONST. | A | | 11,057 | 11,057 |
| NET RETURN FOR SETTLEMENTS | B | | 2,077,562 | 2,115,709 |
| FEDERAL OPERATING INCOME TAX | B | | 588,342 | 608,130 |
| LESS: FEDERAL ITC AMORTIZATION | A | | 58,202 | 58,776 |
| NET FEDERAL INCOME TAX | B | | 530,140 | 549,354 |
| STATE AND LOCAL INCOME TAX | B | | 184,703 | 190,846 |
| LESS: STATE ITC AMORTIZATION | B | | 0 | 0 |
| NET STATE INCOME TAX | B | | 184,703 | 190,846 |
| OPERATING EXPENSE AND TAX | B | | 6,732,468 | 6,839,498 |
| OTHER ALLOWABLE EXPENSES | B | | 7,106 | 7,081 |
| UNCOLLECTIBLES | B | | 0 | 0 |
| BASIS FOR GROSS RECEIPTS TAX | B | | 9,531,980 | 9,702,487 |
| GROSS RECEIPTS/PSC TAX RATE | | | | |
| GROSS RECEIPTS/PSC TAX | B | | 8,139 | 8,262 |
| NET INVESTMENT SUMMARY | Notes | Acct. | | |
| GENERAL SUPPORT FACILITIES | A | 2110 | 6,665,919 | 6,819,316 |
| CENTRAL OFFICE SWITCHING EQUIPMENT | A | 2210 | 3,943,733 | 4,379,804 |
| OPERATOR SYSTEMS EQUIPMENT | A | 2220 | 0 | 0 |
| CENTRAL OFFICE TRANSMISSION EQUIPMENT | A | 2230 | 4,217,946 | 4,543,176 |
| INFORMATION ORIG/TERM EQUIPMENT | A | 2310 | 20,592 | 20,991 |
| CABLE AND WIRE FACILITIES | A | 2410 | 14,327,974 | 14,458,505 |
| TANGIBLE ASSETS | A | 2680 | 0 | 0 |
| INTANGIBLE ASSETS | A | 2690 | 0 | 0 |
| TOTAL PLANT IN SERVICE A/C 2001 | | | 29,176,164 | 30,221,792 |
| | | | 100% | 100% |
| PROPERTY HELD FOR FUTURE USE | A | 2002 | 0 | 0 |
| PLANT UNDER CONSTR - SHORT TERM | A | 2003 | 563,242 | 563,242 |
| PLANT UNDER CONSTR - LONG TERM | A | 2004 | 0 | 0 |
| TELEPHONE PLANT ADJUSTMENT | A | 2005 | 0 | 0 |
| NONOPERATING PLANT | A | 2006 | 0 | 0 |
| GOODWILL | A | 2007 | 0 | 0 |
| TOTAL PROPERTY, PLANT & EQUIPMENT | | | 29,739,406 | 30,785,034 |
| % DISTRIBUTION | | | 100% | 100% |
| ACCUM DEPRECIATION - PLANT IN SERVICE | A | 3100 | 10,102,787 | 10,804,528 |
| ACCUM DEPRECIATION - FUTURE USE | A | 3200 | 0 | 0 |
| ACCUM AMORTIZATION - TANGIBLE PROPERTY | A | 3400 | 0 | 0 |
| ACCUM AMORTIZATION - INTANGIBLE PROPERTY | A | 3500 | 0 | 0 |
| ACCUM AMORTIZATION - TEL PLANT ADJUSTMENT | A | 3600 | 0 | 0 |
| OPERATING DEFERRED INCOME TAX - NET | A | VAR | 1,830,667 | 1,830,667 |
| CUST. DEP., OTHER DEF CRS-NET & L-T LIAB. | A | | 7,829 | 7,829 |
| NET TELEPHONE PLANT | | | 17,797,601 | 18,142,011 |
| | | | 100% | 100% |
| MATERIALS AND SUPPLIES | A | 1220 | 152,829 | 152,829 |
| INVESTMENT IN NONAFFILIATED CO'S | A | 1402 | 550,650 | 550,650 |
| OTHER NONCURRENT ASSETS | A | 1410 | 0 | 0 |
| DEFERRED MAINTENANCE & RETIREMENTS | A | 1438 | 0 | 0 |

ARVIG TELEPHONE COMPANY
PRE-SALE AND ESTIMATED POST-SALE REVENUE**
REQUIREMENT AND SUPPORTING BALANCES
PART 36 DATA

| DESCRIPTION | | | ESTIMATED POST SALE ARVIG (1997 Data for Ash River) | ACTUAL PRE- SALE ARVIG (1997 Data) |
|--|-------|-----------|---|--|
| EQUAL ACCESS EQUIPMENT | A | 1439 | 0 | 0 |
| OTHER JURISDICTIONAL ASSETS | A | 1500 | 0 | 0 |
| CASH WORKING CAPITAL | B | | 61,455 | 59,094 |
| NET TEL PLANT, M&S AND CASH WORKING CAPITAL | | | 18,562,535 | 18,904,583 |
| OPERATING EXPENSE AND TAX SUMMARY | | | | |
| | Notes | Acct. | | |
| NETWORK SUPPORT EXPENSE | B | 6110 | 35,214 | 35,569 |
| GENERAL SUPPORT EXPENSE | B | 6120 | 276,752 | 277,871 |
| CENTRAL OFFICE EXPENSE | B | 6210 | 201,042 | 203,072 |
| INFORMATION ORIG/TERM EXPENSE | B | 6310 | 395 | 395 |
| CABLE AND WIRE FACILITIES EXPENSE | B | 6410 | 900,076 | 904,016 |
| OTHER PLANT EXPENSE | B | 6510 | 11,489 | 11,489 |
| NETWORK OPERATIONS EXPENSE | B | 6530 | 678,426 | 685,279 |
| ACCESS CHARGE EXPENSE | B | 6540 | 5,560 | 5,560 |
| MARKETING EXPENSE | B | 6610 | 377,082 | 380,891 |
| SERVICES EXPENSE | B | 6620 | 983,248 | 993,194 |
| EXECUTIVE AND PLANNING EXPENSE | B | 6710 | 215,182 | 217,355 |
| GENERAL AND ADMINISTRATIVE EXPENSE | B | 6720 | 1,090,030 | 1,101,046 |
| SUBTOTAL OPERATING EXPENSES | | | 4,768,936 | 4,810,177 |
| % DISTRIBUTION | | | 100% | 100% |
| DEPRECIATION AND AMORTIZATION | A | 6560 | 2,004,843 | 2,069,256 |
| OTHER OPERATING TAX | B | 7240 | 80,690 | 81,505 |
| EQUAL ACCESS EXPENSE | | | 0 | 0 |
| INTEREST ON CUSTOMER DEPOSITS | | 7250 | 0 | 0 |
| | | 5240/7100 | | |
| RENT REVENUES/ OTHER INC/ G+L | A | /7500 | -121,440 | -121,440 |
| TOTAL OPERATING EXPENSE AND TAX | | | 6,738,028 | 6,839,498 |

** 1997 Arvig Traffic factors were used for Arvig post sale analysis

Notes explaining allocation of expenses and investments between Arvig and Ash River.

- A. Ash River investments and associated depreciation reserves are actual balances for 1996 and 1997.
- B. Allocated on ratio of access lines of Ash River to Arvig.

ASH RIVER TELEPHONE COMPANY
ESTIMATED POST-SALE REVENUE REQUIREMENT
AND SUPPORTING BALANCES
INTERSTATE INTERLATA PART 69 DATA

| DESCRIPTION | POST SALE ASH RIVER (1997 Data for Ash River) |
|--|--|
| GENERAL SUPPORT FACILITIES | 84,068 |
| CENTRAL OFFICE SWITCHING | 367,150 |
| OPERATOR SYSTEMS | 0 |
| CENTRAL OFFICE TRANSMISSION | 89,095 |
| INFORMATION ORIG/TERM | 100 |
| CABLE AND WIRE FACILITIES | 32,633 |
| TANGIBLE ASSETS | 0 |
| INTANGIBLE ASSETS | 0 |
| TOTAL PLANT IN SERVICE | 573,045 |
| PROPERTY HELD FOR FUTURE USE | 0 |
| PLANT UNDER CONSTRUCT. - SHORT TERM | 0 |
| PLANT UNDER CONSTRUCT. - LONG TERM | 0 |
| TELEPHONE PLANT ADJUSTMENT | 0 |
| TOTAL PROPERTY, PLANT & EQUIP. | 573,045 |
| ACCUM DEPRECIATION - PLANT IN SERVICE | 324,715 |
| ACCUM DEPRECIATION - FUTURE USE | 0 |
| ACCUM AMORTIZATION - TANGIBLE PROPERTY | 0 |
| ACCUM AMORTIZATION - INTANGIBLE PROP. | 0 |
| ACCUM AMORTIZATION - TEL PLANT ADJ. | 0 |
| OPERATING DEFERRED INCOME TAX | -314 |
| OTHER DEFERRED CREDITS - NET | 0 |
| NET TELEPHONE PLANT | 248,645 |
| MATERIALS AND SUPPLIES | 0 |
| RTB STOCK, DEFERRED MAINT. & RET. | 0 |
| EQUAL ACCESS EQUIPMENT | 0 |
| OTHER JURISDICTIONAL ASSETS | 0 |
| CASH WORKING CAPITAL | 686 |
| NET TEL PLANT, M&S & WORKING CAPITAL | 249,331 |
| RETURN ON INVESTMENT FOR SETTLEMENTS | 28,050 |
| PLANT SPECIFIC EXPENSE | 3,009 |
| PLANT NON SPECIFIC EXPENSES EXCL DEP | 3,756 |
| DEPRECIATION & AMORTIZATION | 39,549 |
| MARKETING EXPENSE | 1,292 |
| OTHER CUSTOMER OPERATIONS EXPENSES | 3,412 |
| CORPORATE OPERATIONS EXPENSES | 5,428 |
| EQUAL ACCESS EXPENSE | 0 |
| OTHER OPERATING TAXES | 481 |
| GROSS RECEIPTS TAX | 0 |
| UNCOLLECTIBLES/RENT REVENUES | 0 |
| NON OPERATING EXPENSE | 16 |
| SUBTOTAL OPERATING EXPENSE | 56,944 |
| STATE INCOME TAX - NET OF ITC | 4,683 |
| SUBTOTAL OPER EXPENSE & TAX | 61,626 |
| FEDERAL INCOME TAX - NET OF ITC | 15,085 |
| TOTAL REVENUE REQUIREMENT | 104,761 |

ARVIG TELEPHONE COMPANY
PRE-SALE AND ESTIMATED POST-SALE REVENUE **
REQUIREMENT AND SUPPORTING BALANCES
INTERSTATE INTERLATA PART 69 DATA

| DESCRIPTION | POST SALE ARVIG (1997 Data for Ash River) | PRE-SALE ARVIG (1997 Data) |
|--|---|--------------------------------|
| GENERAL SUPPORT FACILITIES | 1,991,790 | 2,058,533 |
| CENTRAL OFFICE SWITCHING | 2,045,214 | 2,275,631 |
| OPERATOR SYSTEMS | 0 | 0 |
| CENTRAL OFFICE TRANSMISSION | 1,084,159 | 1,173,565 |
| INFORMATION ORIG/TERM | 5,148 | 5,248 |
| CABLE AND WIRE FACILITIES | 3,591,584 | 3,610,014 |
| TANGIBLE ASSETS | 0 | 0 |
| INTANGIBLE ASSETS | 0 | 0 |
| TOTAL PLANT IN SERVICE | 8,717,896 | 9,122,991 |
| PROPERTY HELD FOR FUTURE USE | 0 | 0 |
| PLANT UNDER CONSTRUCT. - SHORT TERM | 168,298 | 170,025 |
| PLANT UNDER CONSTRUCT. - LONG TERM | 0 | 0 |
| TELEPHONE PLANT ADJUSTMENT | 0 | 0 |
| TOTAL PROPERTY, PLANT & EQUIP. | 8,886,194 | 9,293,016 |
| ACCUM DEPRECIATION - PLANT IN SERVICE | 2,942,703 | 3,182,605 |
| ACCUM DEPRECIATION - FUTURE USE | 0 | 0 |
| ACCUM AMORTIZATION - TANGIBLE PROPERTY | 0 | 0 |
| ACCUM AMORTIZATION - INTANGIBLE PROP. | 0 | 0 |
| ACCUM AMORTIZATION - TEL PLANT ADJ. | 0 | 0 |
| OPERATING DEFERRED INCOME TAX | 545,968 | 551,407 |
| OTHER DEFERRED CREDITS - NET | 2,368 | 2,374 |
| NET TELEPHONE PLANT | 5,395,155 | 5,556,631 |
| MATERIALS AND SUPPLIES | 38,310 | 38,158 |
| RTB STOCK, DEFERRED MAINT. & RET. | 164,535 | 166,224 |
| EQUAL ACCESS EQUIPMENT | 0 | 0 |
| OTHER JURISDICTIONAL ASSETS | 0 | 0 |
| CASH WORKING CAPITAL | 61,455 | 59,094 |
| NET TEL PLANT, M&S & WORKING CAPITAL | 5,659,455 | 5,820,106 |
| RETURN ON INVESTMENT FOR SETTLEMENTS | 633,385 | 651,424 |
| PLANT SPECIFIC EXPENSE | 396,020 | 398,930 |
| PLANT NON SPECIFIC EXPENSES EXCL DEP | 206,148 | 210,332 |
| DEPRECIATION & AMORTIZATION | 709,275 | 736,725 |
| MARKETING EXPENSE | 128,117 | 129,263 |
| OTHER CUSTOMER OPERATIONS EXPENSES | 316,339 | 319,776 |
| CORPORATE OPERATIONS EXPENSES | 399,039 | 404,100 |
| EQUAL ACCESS EXPENSE | 0 | 0 |
| OTHER OPERATING TAXES | 25,521 | 26,062 |
| GROSS RECEIPTS TAX | 0 | 0 |
| UNCOLLECTIBLES/RENT REVENUES | -36,287 | -36,659 |
| NON OPERATING EXPENSE | 2,172 | 2,170 |
| SUBTOTAL OPERATING EXPENSE | 2,146,345 | 2,190,699 |
| STATE INCOME TAX - NET OF ITC | 56,717 | 59,154 |
| SUBTOTAL OPER EXPENSE & TAX | 2,203,063 | 2,249,854 |
| FEDERAL INCOME TAX - NET OF ITC | 163,328 | 170,807 |
| TOTAL REVENUE REQUIREMENT | 2,999,776 | 3,072,085 |

** 1997 Arvig Traffic factors were used for Arvig post sale analysis